

City of Seattle

Financial Condition Report 1988-1997

The Financial Condition Report provides City officials and citizens with information that can help them understand the City of Seattle's financial condition. While a wealth of financial information is prepared, audited and reported each year in the City's Comprehensive Annual Financial Report (CAFR) and the Adopted Budget, a non-technical reader may find these documents difficult to understand. The Financial Condition Report presents financial information in a format that may be easier to comprehend.

The report presents 14 trends in four areas and covers financial operations over the past ten fiscal years, 1988 to 1997. This is the first issue of the City of Seattle Financial Condition Report, which will be produced annually by the Office of City Auditor and the Executive Services Department.

Measure of Financial Condition

A city in good financial condition can finance services to the public on a continuing basis. Such a city can maintain existing service levels, withstand economic disruptions, and respond to growth, decline, and change. A healthy city collects sufficient revenues to pay short-term bills, finance major capital expenditures, and meet long-term obligations.

Monitoring Financial Condition

Financial condition can be monitored by analyzing trends in a variety of indicators. Based on the availability of financial data, 14 indicators in four areas were developed:

- ♦ revenues
- ♦ expenditures
- ♦ operating position & debt
- ♦ economy & demographics

Tracking these indicators over time may permit City managers and officials to monitor financial trends and identify problem areas that may need attention. The indicators can be used as early warning signs when certain trends are evident. Trends often require further analysis to assess their significance, and some trends are more critical than others. If problems are identified, officials can develop strategies to deal with them.

Scope and Methodology

The Financial Condition Report covers ten years of financial trends from fiscal years 1988 to 1997. The report was prepared by staff from the Office of City Auditor and the Executive Services Department's Finance Division and Budget Office. The CAFRs provided expenditure and revenue data for the report, and authorized personnel data were obtained from the City's Adopted Budgets. Socio-demographic data was provided by the Puget Sound Regional Council¹ and the Washington State Employment Security Department.

The methodology used in this report was developed by the International City/County Management Association (ICMA).² The ICMA methodology identifies and organizes factors that affect financial condition so that they can be evaluated, and incorporates financial indicators that are used by national bond rating organizations to evaluate a city's credit-worthiness.

In accordance with the ICMA methodology, the definition of general government operating revenues and expenditures includes the following funds:

- ♦ General Fund and Subfunds
- ♦ Special Revenue Funds
- ♦ General Bond Interest and Redemption Fund
- ♦ Firemen's Pension Fund
- ♦ Police Relief and Pension Fund

Enterprise, capital projects, fiduciary, and internal service funds were excluded from the definition of general government operating revenues and expenditures because they support utility or non-operating functions of the City.

To show the reductions in purchasing power caused by inflation, the financial trends were calculated using 1997 dollars based on the Seattle-Tacoma Consumer Price Index for urban consumers. ▲

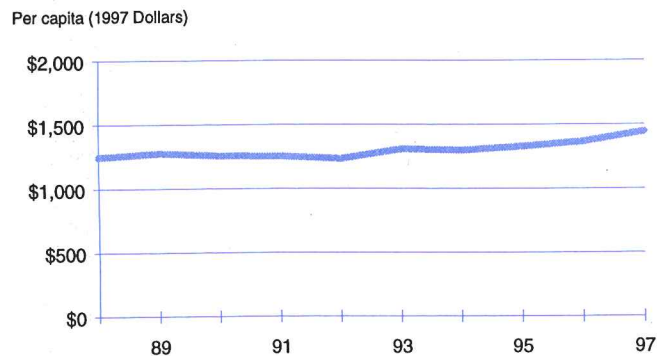
¹ The Puget Sound Regional Council is the regional growth management and transportation planning agency for the central Puget Sound area in Washington State.

² Groves and Valentine, *Evaluating Financial Condition: A Handbook for Local Governments*, ICMA, 1994.

REVENUES

OPERATING REVENUES PER CAPITA

Operating revenues per Seattle resident have been stable over the past ten years, with an upward trend since 1994.



Indicator Explanation

Operating revenues include property, sales and business taxes, charges for services, fines and permits, and grants and shared revenues from the state and federal government.

Revenues per capita shows the change in revenue relative to the change in population size.³ Generally, as population increases, the need for services increases. A constant revenue per capita reveals that revenues are increasing proportionate to the increase in population; an increasing trend shows that revenues are increasing faster than population growth.

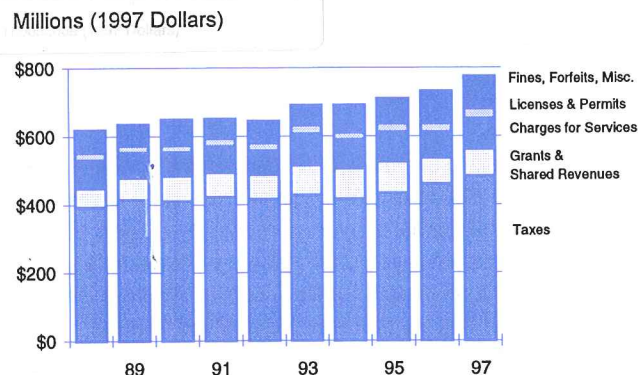
Trend Analysis

Adjusted for inflation, revenues per capita have gradually increased since 1994, following a period of stability. The growth in revenues per capita is due to increased business and occupation (B&O), sales and property tax revenues resulting from a strong economy, higher assessed property values, and improved collection efforts for taxes and fines.

Seattle's population has remained relatively stable over the past ten years with an average annual growth rate of less than 1 percent.

OPERATING REVENUES

Operating revenues, when corrected for inflation, are on an upward trend, following a slight dip in 1992.



Indicator Explanation

These are all of the City's general government operating revenues that are available for on-going City services. These services include public safety, culture and recreation, housing and human services, road maintenance, and debt service. Increasing revenues may enable a government to maintain or expand service levels.

Trend Analysis

In general, the revenue trend has been favorable over the past ten years. After adjusting for inflation, operating revenues increased from \$618 million in 1988 to \$774 million in 1997, an average annual increase of 2.8 percent above inflation per year. The bulk of the growth occurred after 1992.

The revenue source that experienced the greatest growth in the ten-year period was the Miscellaneous/Fines & Forfeits category, with an average annual increase of 5.8 percent. The increased revenues in this category were due to the increased collection efforts for Municipal Court fines, and in 1996 and 1997, rental income from Key Tower and the Police Support Facility (Park 90/5), and interest earnings from investments.

Charges for Services also grew at an average annual rate of 4.4 percent during the ten-year period, due primarily to increase in admissions revenues for parks and recreation services, including the Zoo, Aquarium, pools and golf courses. Street utility fees collected between 1993 and 1995 also contributed to the increase in revenues. More than half of these fees were later refunded, however, after the State Supreme Court ruled in 1995 that the residential portion of the street utility fee was unconstitutional.

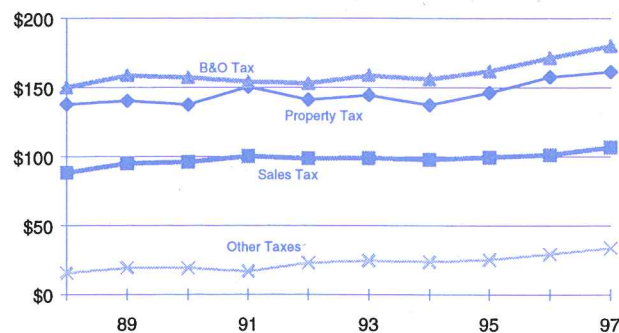
Tax revenues have also contributed to the upward trend since 1994. Due to a strong local economy, tax revenues increased by 5.2 percent above inflation each year between 1994 and 1997.

³ Annual population figures are estimates by the Washington State Employment Security Department, except for 1990 (year of the U.S. Census).

TAX REVENUES

Adjusted for inflation, tax revenues remained fairly constant through 1993, and have grown steadily since 1994.

Millions (1997 Dollars)



Indicator Explanation

Tax revenues comprise over 60 percent of the City's operating revenues. Property, retail sales, utility, general business and occupation, and other local taxes are included in this category. Most revenues from taxes go into the general fund to support general government operations. However, some special revenue funds also receive business and occupation (B&O) tax revenues, and some special revenue and debt service funds receive property tax revenues.

Trend Analysis

The B&O taxes on both utility and non-utility businesses make up the largest component of tax revenues. Over the ten-year period, B&O tax revenues increased by 20 percent, with an average annual increase of 2.1 percent after adjusting for inflation. The most rapid growth occurred between 1994 and 1997, when B&O revenues increasing 4.9 percent per year.

The rise in B&O tax revenues since 1994 is attributed to strong economic growth in the Seattle region, City-imposed rate increases in 1989 and 1991, voter-imposed rate increase in 1990, improved enforcement of this tax, and growth in the telecommunication industry.

After a period of gradual growth, property tax (regular and excess levy) revenues have increased more rapidly since 1994. Over the ten-year period, property tax revenues rose by 17 percent, with an average annual increase of 1.9 percent after adjusting for inflation.

Since 1994, property tax revenues increased by an average of 5.6 percent per year. The increase was due to a dip in 1994's property tax collections and voter-approval of a low income housing levy which began in 1996. The dip in 1994 was due to a one-year refund of an over-collected levy for the 1985 Parks and Facilities Levy, part of the "1-2-3 Bonds."

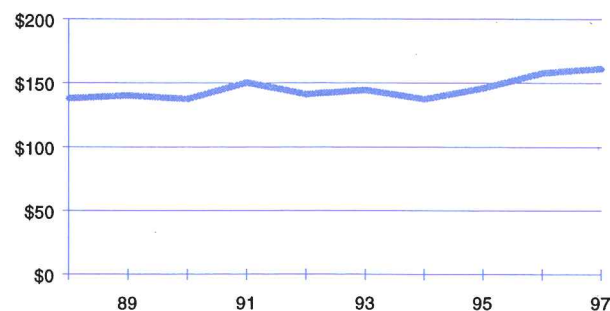
Sales tax revenues have grown slowly since 1989, following an increase in revenues resulting from an increase in the City portion of the sales tax in 1988.⁴ The average annual increase in sales tax revenue during the ten-year period was 2.3 percent.

⁴ The basic sales tax rate collected on transactions in Seattle is 8.6 percent. This is a composite of separate rates for the following overlapping taxing districts: Washington State, City of Seattle, Metropolitan King County, and the Regional Transit Authority. In addition, the overall rate includes 0.1 percent for the King County Criminal Justice Levy. Of the overall sales tax rate of 8.6 percent, the City of Seattle's portion is 0.85 percent.

PROPERTY TAX REVENUES

Property tax revenues have remained fairly constant, with some growth since 1994.

Millions (1997 Dollars)



Indicator Explanation

Property taxes are a major source of operating revenue for the City. Property taxes include regular property taxes (including levy lid lifts) and excess taxes. Regular property taxes, with the exception of levy lid lifts, support general government functions such as public safety, libraries and parks and recreation. Levy lid lifts and excess tax levies are usually for special programs and are voter approved.

Property taxes are paid on the assessed value of real and personal property. State law sets a 6 percent limit on annual growth in City regular property tax revenue with certain exceptions, including the application of the tax to new construction or property remodeled within the last year. State law also sets a limit of \$3.60 per \$1,000 of assessed value on the regular property tax rate. Voters can approve a levy lid lift with a 50 percent vote, which allows property taxes to increase above the 6 percent growth limit, but not above the \$3.60 limit. Excess tax levies require a 60 percent vote and do not fall under either of the limits.

Trend Analysis

Regular and excess property tax and revenues have remained fairly constant throughout most of the ten-year period, with an increasing trend since 1994.

The peak in 1991 reflects an increase in property tax revenues as a result of a voter-approved Families and Education levy, which produced \$8.5 million in the first year of its seven-year life. Property tax revenues dropped back in 1992 as a result of the expiration of the 1985 Parks and Facilities Levy, part of the "1-2-3 Bonds."

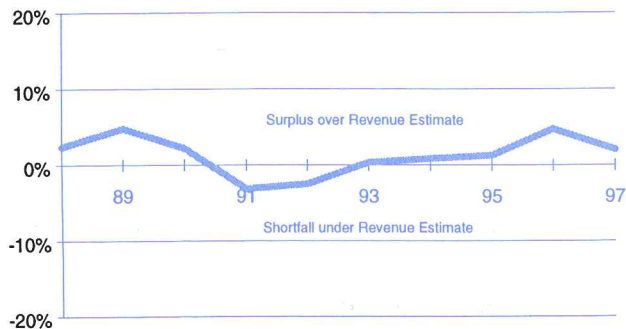
The slight drop in 1994 was due to a reimbursement of an over-collected levy for the 1-2-3 Bonds. In 1991, the City had continued to levy taxes for payment of debt service on the 1-2-3 Bonds, after sufficient resources had already been collected to pay off the debt. The 1991 over-collected levy also contributed to the increased property tax revenues in the same year.

The increase in property taxes in 1996 resulted from a seven-year, voter-approved low-income housing levy which began in that year.

GENERAL FUND REVENUE SURPLUSES (SHORTFALLS)

General fund revenue estimates have been close to actual revenues during the ten-year period.

Percent of General Fund



Indicator Explanation

This indicator examines the differences between general fund revenue estimates and revenues actually received during the fiscal year. Overestimating revenues causes budget shortfalls, which may require mid-year cuts in service levels, spending of reserve funds, or increased use of short-term borrowing. Underestimating revenues reduces the opportunity to timely allocate those revenues to programs.

Trend Analysis

During the ten-year period, the estimates for general fund revenues have been close to actual revenues, with a variance of less than 5 percent to the negative or positive.

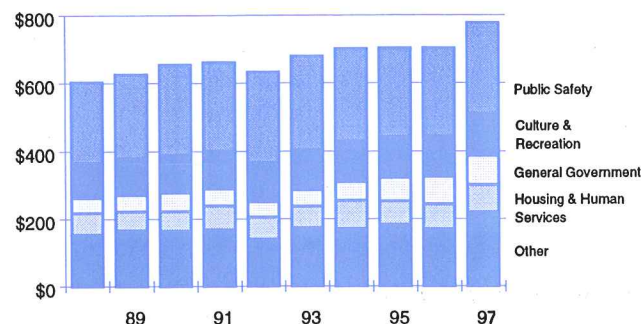
The years of surplus, such as 1989 and 1996, correspond to years of growth in the local economy. Likewise, shortfall years correspond to periods of economic decline. ▲

EXPENDITURES

OPERATING EXPENDITURES

After a period of gradual growth, operating expenditures experienced an upturn in 1997.

Millions (1997 Dollars)



Indicator Explanation

Operating expenditures include personnel costs, materials and services, and capital costs for all ongoing City services such as public safety, culture and recreation, housing and human services, general government and debt service. This indicator excludes enterprise activities such as light, water and sewer.

Trend Analysis

Since 1994, operating expenditures increased at a rate similar to inflation, with an upturn in 1997.

After adjusting for inflation, expenditures increased by \$74 million between 1996 and 1997. A significant portion of this growth occurred in the "Other" category. Increases in this category included growth in debt service costs due to payments beginning in 1997 for the acquisition of the Key Tower building, and for costs incurred as a result of storm damage in late 1996 and early 1997.

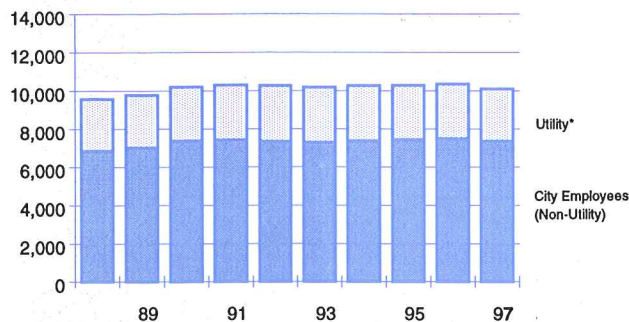
Increases in general government costs – due to the street utility refund payments, replacement of the City's financial management system and growth in public safety expenditures – also contributed to expenditure growth between 1996 and 1997.

While total spending increased 29 percent between 1988 and 1997 (3 percent average annual increase), spending per capita only increased by 19 percent (2 percent average annual increase) during this period when adjusted for inflation. The increases in operating expenditures during the ten-year period are primarily due to increased spending on general government, housing and human services, and culture and recreation.

NUMBER OF EMPLOYEES

The number of City employees (non-utility) has remained constant since 1990, with a slight decrease in 1997.

Full-Time Equivalent Employees



* For information only. Operating expenditures includes only general government personnel costs.

Indicator Explanation

This indicator tracks the number of budgeted full-time equivalent employees (FTE) in the City. Temporary or contract workers are not included and utility employees are shown for information purposes only and upward or downward trends in the number of employees would need to be analyzed and may reflect changes in productivity or the labor-intensity of government services.

Trend Analysis

The number of non-utility City employees has remained relatively constant during the ten-year period.

Although the total number of non-utility employees went up during the ten-year period from 6,856 to 7,349, the number of employees per 1,000 residents went down from 13.8 in 1988 to 13.7 in 1997, a ten-year low. The highest ratio was in 1991 when there were 14.3 employees per 1,000 residents.

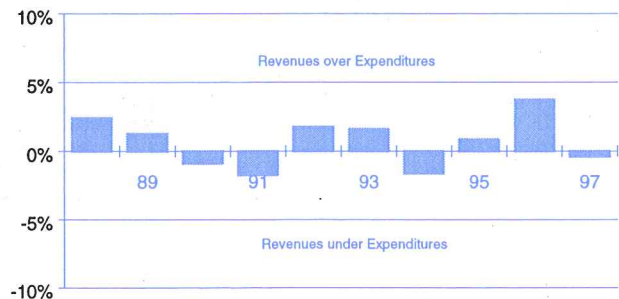
The number of non-utility employees decreased by 145 FTEs between 1996 and 1997 in response to budget problems caused by the loss of the street utility fee and federal funding reductions. The City implemented the Early Separation Program as a way to help mitigate some of the effects of the position losses on employees. ▲

OPERATING POSITION & DEBT

OPERATING REVENUE SURPLUS (SHORTFALLS)

The variance between spending and revenues in the past ten years has been positive in more years than it has been negative.

Percent of Operating Revenues



Indicator Explanation

Operating deficits occur when expenditures exceed revenues. This may not mean that the budget will be out of balance because reserves from prior years can be used to cover the differences. Sometimes operating deficits can be intentionally planned in order to spend down accumulated reserves. Frequent or increasing deficits, however, may indicate revenues are not supporting current expenditures.

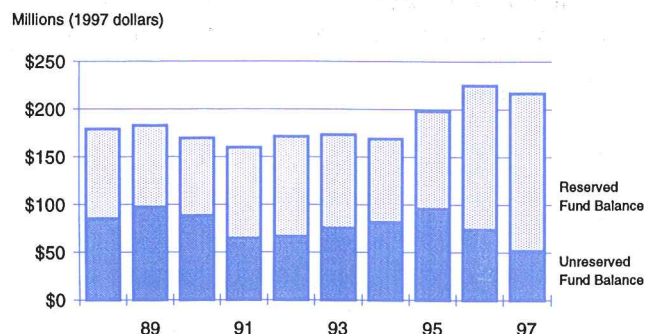
Trend Analysis

The City has had an operating surplus in six of the last ten years.

In years when a deficit occurred, the deficit was not more than 2 percent of the City's operating revenues.

UNRESERVED FUND BALANCES

Unreserved fund balances in the operating funds have been variable with declines in 1996 and 1997. Overall reserved and unreserved fund balances, however, have increased since 1994.



Indicator Explanation

Fund balances are resources that are carried over from one fiscal year to the next; a positive fund balance indicates there is a surplus of funds. Fund balances have two components: reserved and unreserved. Reserved fund balances are resources that are legally segregated for specific future uses or unavailable for appropriation. The unreserved portion is available for appropriation and may be used for financial emergencies, capital purchases and future obligations.

The size of the City's unreserved fund balances can affect its ability to withstand financial emergencies and can also affect the City's ability to make capital purchases without having to issue debt.

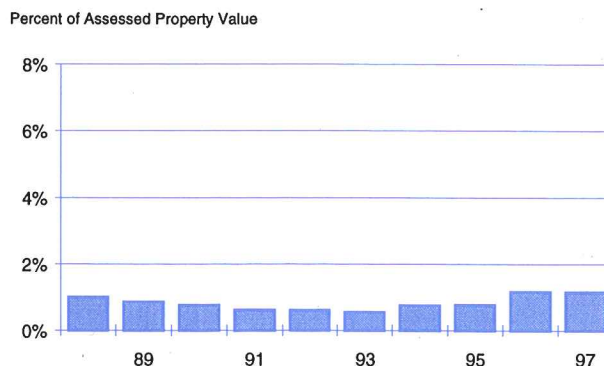
Trend Analysis

The unreserved fund balances of the operating funds⁵ grew between 1992 and 1995, following a drop in 1991. Since 1995, unreserved fund balances have again declined.

The change in unreserved fund balances since 1995 is due to unreserved fund balances being reserved for capital projects and repairs for storm damage caused by the 1996-97 winter floods. Also, changes in accounting rules and applications caused some of the previously unreserved fund balances to be reclassified as "reserved."

LONG-TERM DEBT

While long-term debt has been increasing over the past four years, the level of debt as a percentage of assessed property values is significantly lower than the legal debt capacity.



Indicator Explanation

Long-term debt is general obligation bonded debt for which the City has pledged its full faith and credit. It does not include the debt of overlapping jurisdictions (e.g., Seattle Schools, King County, Washington State, etc.). An increasing amount of long-term debt can indicate that the City's ability to repay its obligations is diminishing.

Trend Analysis

The City has kept the level of general obligation bonded debt at less than 1.2 percent of total assessed property value during the ten-year period. Washington State law limits general obligation debt to 7.5 percent of total assessed property value.

The level of long-term debt has been increasing, and was at its highest level in the past two years at 1.2 percent. This figure, however, is far below the State debt capacity limit of 7.5 percent.

Increased investments in City facilities and capital projects in recent years have driven this growth. ▲

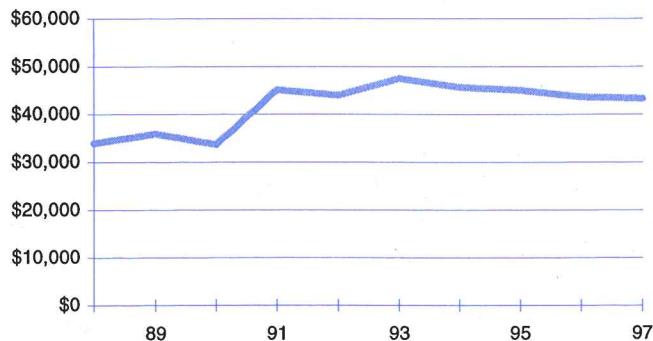
⁵ Operating funds include: General Fund and subfunds, special revenues funds, General Bond Interest and Redemption Fund, Firemen's Pension Fund and Police Relief and Pension Fund.

ECONOMY & DEMOGRAPHICS

ASSESSED PROPERTY VALUE

When adjusted for inflation, total assessed property value has increased over the ten year period, with most of the growth occurring between 1989 and 1993.

Millions (1997 Dollars)



Indicator Explanation

Assessed property value is a measure of the market value of taxable real and personal property in the City of Seattle, and is a major factor in determining property tax revenues for the City. On average, real property (land and permanent structures) represents 92 percent of assessed value.

Assessed property value is determined by the King County Assessor's Office and is updated annually. Because assessed value is based in part on prior year's statistics, there is a one-year lag in the value of properties (i.e. 1997's assessed property values are based in part on sales that occurred in 1996). In addition, only one-sixth of all property is revalued each year by physical inspection; the remainder is updated by statistical trending. The combination of these factors, among others, may result in a lag in assessed value to the market value of property.

Trend Analysis

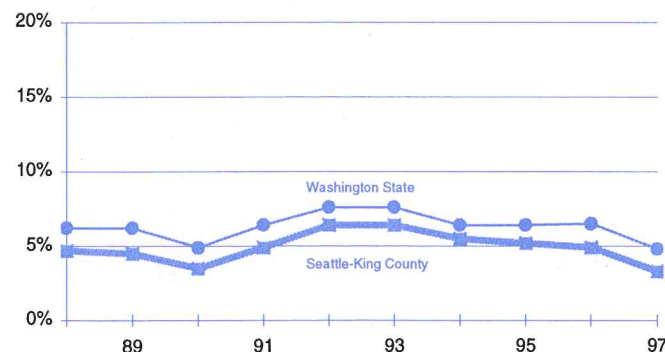
When adjusted for inflation, total assessed property value has increased by 28 percent from 1988 to 1997.

Total assessed property value decreased by 8.7 percent between 1993 and 1997 (from \$47 billion to \$43 billion) after adjusting for inflation.

The strongest growth in assessed value occurred between 1990 and 1991, when total property value increased by 34 percent. This growth was due to a strong housing market in the late 1980's.

UNEMPLOYMENT RATE

The unemployment rate in the Seattle-King County area remained low over the ten-year period.



Indicator Explanation

A declining unemployment rate is usually a sign of an expanding employment base, which can lead to higher revenues and lower social service costs for the City.

Trend Analysis

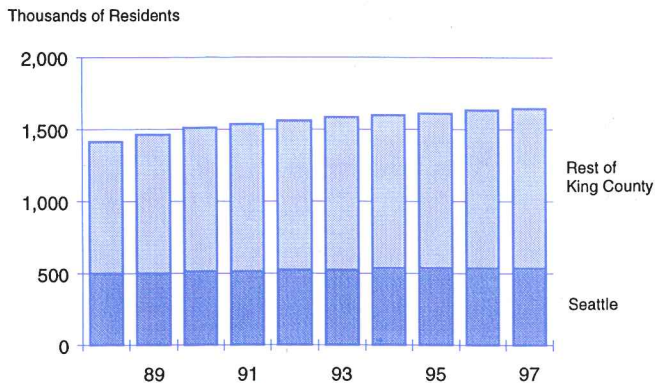
Unemployment in the Seattle-King County area was low over the ten-year period, and has continuously declined since 1993.

The most significant drop occurred between 1996 and 1997 when the local unemployment rate decreased by 1.6 percent.

The Seattle-King County area's unemployment rate was below the state average throughout the ten-year period.

POPULATION

Seattle's population has increased at a slower rate than King County's over the past ten years.



Indicator Explanation

Rapid increases in population can lead to increased service demands. Often, revenues fail to keep pace with service needs when population increases too rapidly.

Except for 1990 (year of U.S. Census), population figures are estimates.³

Trend Analysis

Seattle's population grew by 8 percent over the ten-year period. Except for 1990, the number of Seattle residents grew by 1 percent or less annually. Seattle experienced an apparent 4 percent population growth in 1990.⁴

King County's population grew nearly twice as fast as the City's, increasing by 16 percent over the ten-year period.

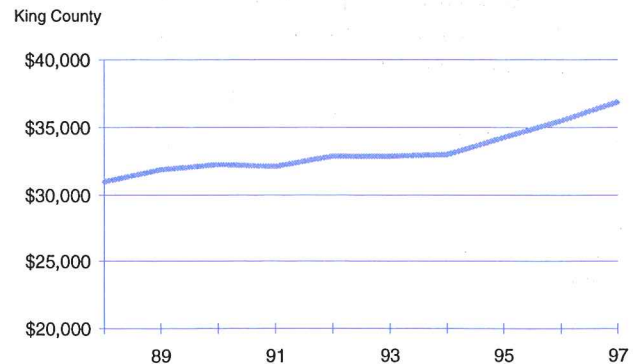
The median age for King County residents increased from 33.3 to 36.0 years old during the decade.

³ Estimates by Washington State Employment Security Department.

⁴ This increase may be due to errors in population estimates for 1989 and a few earlier years. Errors in prior population estimates would be noticed in 1990, the year of the U.S. Census, when a more accurate population estimate is calculated by the U.S. Census Bureau.

PER CAPITA INCOME

The Seattle-King County area's per capita income has increased steadily over the ten-year period, with strong growth since 1994.



Indicator Explanation

Personal income per capita is a measure of a community's ability to pay taxes. Higher per capita income generates more property, sales and business tax revenues and usually indicates a healthy local economy. In addition, a higher per capita income may reflect lower dependency on government services such as health, housing, and welfare.

Trend Analysis

Adjusting for inflation, income per resident increased from \$30,918 in 1988 to \$36,912 in 1997 in the Seattle-King County area, a 19 percent increase.

Per capita income rose rapidly between 1994 and 1997, increasing an average of 4 percent annually during this period. ▲

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